

**AR59**

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Edmonton, Alberta T6G 2R6

**Ad Wall**

**Capital Corp.**

Capital Corp.

**Annual Report 1997**



# Message to Shareholders

We present the Fiscal 1997 annual report of your Company.

Our corporate mission is to become the worldwide provider of networked indoor digital display advertising billboards.


During Fiscal 1997 the company successfully proved out its technology in concept demonstrations at three Canadian Tire stores in Toronto and ten Schnucks Markets supermarkets in St. Louis. We are positioned to support our sales objectives for Fiscal 1998.

We are at various stages of discussion with supermarkets, mass merchandisers, drug stores, shopping malls, hotels, office support services, fast food restaurants, medical clinics and financial institutions. We are working toward implementing a number of these opportunities in 1998. We shall keep you informed of our progress.

We have evaluated the technology demands and have positioned the company to meet the technical challenges that will support our expected growth over the next five years. We are very pleased with the support from our strategic partners - Fujitsu General America, Inc and Apple Computers, Inc.

The 1997 year has been a building process toward the success and profitability of your company. We have a very capable and focused management team who have made significant strides in a relatively short period of time. Thank you for your continued support.

On behalf of the Board of Directors,



Alfred Bengida  
Chief Executive Officer



# AdWall Capital Corp.

## Corporate History

The Company was incorporated as 628839 Alberta Inc. under the Business Corporations Act of Alberta on October 18, 1994. On March 24, 1995 the Company concluded a public offering of Common Shares pursuant to the Junior Capital Pool program of The Alberta Stock Exchange and the Alberta Securities Commission. The Company changed its name to AdWall Capital Corp. on January 10, 1995.

The company commenced operations effective July 6, 1995 on the completion of its major transaction, being the acquisition of 83.6% of the outstanding shares of AdWall Advertising Systems Corporation. The Corporation acquired the remaining 16.4% of AdWall Advertising Systems Corporation on July 6, 1996. AdWall trades under the symbol WOW on The Alberta Stock Exchange.

## WOW | network

WOW | media has developed the WOW | network, a point-of-purchase message system using a digital display network that enables stunning computer generated graphics to be shown anywhere in North America on any type of display - including high resolution Fujitsu 42" Plasmavision screens.

The WOW | network has modular and integrated applications in supermarkets, mass merchandisers, banks, shopping centres, convenience and specialty stores, resorts, hotels, public buildings and convention centres. Display screens are strategically positioned in high profile / high traffic flow areas where immediate buying decisions are made. This point of purchase medium directly targets specific consumer groups by income, demographics, family size etc.

Generally advertisers are finding that it is difficult to reach a target audience. They can't rely on the consumer remembering their advertising in the store. Advertisers are seeking a strong in-store advertising medium that influences consumers at the point of purchase. 60 to 70% of all retail purchasing decisions are made in the store. WOW | media display screens use digital graphics to: mirror the message presented in expensive TV or print media advertising campaigns; launch new products; or promote products which have little exposure. Retail is marketing's moment of truth.

Retailers and advertisers will gain a competitive edge using the WOW | network. Benefits include:

- A new profit centre for the retailer;
- Increased product sales;
- Flexible real time control over advertising medium (timing, length, frequency and content);
- Reinforcement of manufacture, brand name and product awareness;
- Promote in-store loyalty programs, value added services or own brand products;
- Present leading edge technology image to shoppers.

The WOW | network is fully commercially operational and is managed from network operation control centres in Calgary and San Diego. Advertising messages and schedules are relayed to an in-store controller computer over high speed telecommunication lines. The store controller can manage up to 26 in-store displays each running individual advertisements/messages. Advertisements, infomercials, community messages typically run for between 5-30 seconds each and are custom fit to the needs of the advertiser. Advertisements/messages are grouped and repeated every 30-250 seconds (loops) depending upon the screen location, traffic flow and audience. The display loops can be changed up to six times in a 24hr period optimizing exposure to specific target audiences.

Advertisements are initially created using store purchased media software such as Illustrator or Photoshop and then assembled in WOW | maker. WOW | buyer is an automated system that manages site selection, scheduling, approvals and billing. The WOW | network uses proprietary software, developed over four years, to control all aspects of content scheduling and delivery. An independent evaluation of the WOW | network conducted in 1997 by a Silicon Valley based communication systems consulting company concluded that the WOW | network was able to meet our foreseeable deployment objectives.



KPMG  
Chartered Accountants

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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of AdWall Capital Corp. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*KPMG*

Chartered Accountants

Calgary, Canada  
January 30, 1998, except with  
respect to notes 3 and 4,  
which are as of May 19, 1998



# ADWALL CAPITAL CORP.

Consolidated Balance Sheets

December 31, 1997 and 1996

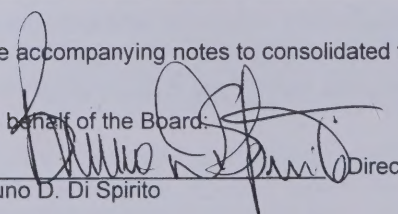
	1997	1996
<b>Assets</b>		
Current assets:		
Cash and term deposits	\$ 657,446	\$ 241,279
Accounts receivable	22,138	32,204
Prepaid expenses	23,125	-
	702,709	273,483
Capital assets (note 2)	49,882	51,798
Deferred development and marketing costs (Schedule)	3,393,200	2,302,303
	<u>\$ 4,145,791</u>	<u>\$ 2,627,584</u>

## Liabilities and Shareholders' Equity

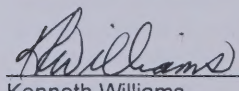
Current liabilities:		
Accounts payable and accrued liabilities	\$ 333,250	\$ 84,860
Secured payable (note 3)	345,349	-
	678,599	84,860
Convertible debentures (note 4)	2,000,000	-
Shareholders' equity:		
Share capital (note 5)	5,889,424	5,598,483
Deficit	(4,422,232)	(3,055,759)
	1,467,192	2,542,724
Commitments (note 8)		
Subsequent events (notes 3 and 4)		
	<u>\$ 4,145,791</u>	<u>\$ 2,627,584</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

  
Bruno D. Di Spirito

Director

  
Kenneth Williams

Director

# ADWALL CAPITAL CORP.

## Consolidated Statements of Operations and Deficit

Years ended December 31, 1997 and 1996

	1997	1996
Operating expenses:		
Consulting fees, salaries and benefits	\$ 545,045	\$ 715,079
Travel and promotion	201,553	164,726
Professional fees	140,678	123,594
General office	106,206	39,248
Telephone and communications	104,885	60,961
Marketing	92,349	162,293
Interest expense (income), net	88,043	(13,443)
Rent and utilities	74,849	97,294
Depreciation	12,865	19,351
Net loss	1,366,473	1,369,103
Deficit, beginning of year	3,055,759	1,686,656
Deficit, end of year	\$ 4,422,232	\$ 3,055,759
Loss per Common Share	\$ 0.07	\$ 0.09

See accompanying notes to consolidated financial statements.

# ADWALL CAPITAL CORP.

## Consolidated Statements of Changes in Financial Position

Years ended December 31, 1997 and 1996

	1997	1996
Cash provided by (used in):		
Operations:		
Net loss	\$(1,366,473)	\$ (1,369,103)
Item not involving cash:		
Depreciation	12,865	19,351
	(1,353,608)	(1,349,752)
Net change in non-cash working capital balances relating to operations	235,331	11,897
	(1,118,277)	(1,337,855)
Financing:		
Issue of convertible debentures	2,000,000	-
Issue of secured payable	345,349	-
Share capital issued and to be issued, net of issue costs	290,941	2,385,147
	2,636,290	2,385,147
Investing:		
Development and marketing costs deferred	(1,090,897)	(877,994)
Acquisition of capital assets	(10,949)	(15,296)
	(1,101,846)	(893,290)
Increase in cash and term deposits	416,167	154,002
Cash and term deposits, beginning of year	241,279	87,277
Cash and term deposits, end of year	\$ 657,446	\$ 241,279

See accompanying notes to consolidated financial statements.



# ADWALL CAPITAL CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 1997 and 1996

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## General:

AdWall Capital Corp. (the "Corporation" or "WOW|media") and its subsidiaries sell, lease and rent networked digital advertising and messaging systems. WOW|media has focused on the businesses who want to target consumer audiences at the Point of Purchase/Service using high-impact graphics to promote, educate and advertise their own or third-party products and services.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries.

### (b) Capital assets:

Capital assets are recorded at cost. Depreciation is provided on a declining-balance basis at the following annual rates:

Asset	Rate
Office furniture and equipment	20%
Computer equipment	30%
Computer software	20%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

### (c) Deferred costs:

Direct development costs and direct marketing costs, including development equipment and net of tax credits and incidental revenue, have been deferred and will be amortized on a straight-line basis over a five-year period commencing on the achievement of a commercial level of operations. All other costs associated with general market analysis, product demonstrations, financing and administration have been charged to operations.

The ultimate recoverability of deferred costs is dependent upon the successful commercialization of the Corporation's proprietary technology.

# ADWALL CAPITAL CORP.

Notes to Consolidated Financial Statements, Page 2

Years ended December 31, 1997 and 1996

## 2. Capital assets:

December 31, 1997	Cost	Accumulated depreciation and amortization	Net book value
Office furniture and equipment	\$ 80,098	\$ 46,251	\$ 33,847
Computer equipment	48,108	34,730	13,378
Computer software	2,952	295	2,657
	\$ 131,158	\$ 81,276	\$ 49,882
December 31, 1996			
Office furniture and equipment	\$ 76,382	\$ 38,254	\$ 38,128
Computer equipment	43,627	29,957	13,670
Leasehold improvements	6,325	6,325	-
	\$ 126,334	\$ 74,536	\$ 51,798

## 3. Secured payable:

The secured payable, in the amount of \$241,500 U.S., bears interest at 8% per annum payable monthly and is secured under a general security agreement covering certain equipment owned by the Corporation.

Subsequent to December 31, 1997 the repayment terms of the secured payable were amended to two equal instalments of \$25,000 U.S. due on each of May 31 and August 31, 1998, with the balance due on October 31, 1998.

## 4. Convertible debentures:

The \$2,000,000 of convertible debentures bear interest at 10% per annum payable semi-annually and are secured under general security and pledge agreements covering a fixed and floating charge on all property and assets, tangible and intangible, of the Corporation. The debentures are convertible, in whole or in part, at any time prior to June 19, 1998, into fully paid and non-assessable Common Shares of the Corporation at a conversion price of \$0.25 per share. The debenture agreements impose certain restrictions and covenants on the Corporation, all of which were met during the year ended December 31, 1997.

Subsequent to December 31, 1997 the Corporation made substantive arrangements to amend the maturity date of the debentures from June 19, 1998 to June 19, 1999, subject to certain final approvals. These financial statements reflect this revision.

Of the total convertible debentures outstanding, \$250,000 are held by a company in which a director of the Corporation is an officer.

# ADWALL CAPITAL CORP.

Notes to Consolidated Financial Statements, Page 3

Years ended December 31, 1997 and 1996

## 4. Convertible debentures (continued):

In addition to the foregoing, subsequent to December 31, 1997, the Corporation made substantive arrangements for the issue of an additional \$1,000,000 of convertible debentures, bearing interest at 10% per annum and secured under a general security agreement covering the tangible and intangible assets of the Corporation. The debentures are to be convertible, in whole or in part, into Common Shares of the Corporation at a conversion price of \$0.28 per share. In addition, the lender will receive one Common Share purchase warrant for each Common Share into which the debenture is convertible. Each Common Share purchase warrant will entitle the holder to acquire one Common Share of the Corporation at a price of \$0.32 per share until expiry, being five years from the date of issue. If the Corporation continues to be listed on The Alberta Stock Exchange, this price will increase by increments of \$0.05 per share on each of the third, fourth and fifth years following the date of issue.

## 5. Share capital:

### (a) Authorized:

- (i) Unlimited number of Preferred Shares, issuable in series.
- (ii) Unlimited number of voting Common Shares.

### (b) Issued and to be issued:

	1997		1996	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares:				
Beginning of year	18,618,742	\$ 5,816,304	12,766,318	\$ 3,235,136
Issued for cash	—	—	4,511,469	2,338,798
Issued on exercise of warrants	750,000	187,500	—	—
As consideration for the acquisition of the remaining shares of AdWall Advertising	—	—	1,000,000	147,345
Issued on exercise of stock options	—	—	250,000	45,000
Issued for services received	—	—	90,955	50,025
End of year	19,368,742	6,003,804	18,618,742	5,816,304
Common Shares to be issued for services received	426,450	103,441	—	—
		6,107,245		5,816,304
Share issue costs		217,821		217,821
		\$ 5,889,424		\$ 5,598,483



# ADWALL CAPITAL CORP.

Notes to Consolidated Financial Statements, Page 4

Years ended December 31, 1997 and 1996

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## 5. Share capital (continued):

### (b) Issued and to be issued (continued):

On June 4, 1996 the Corporation acquired the remaining 16.4% of the outstanding shares of Adwall Advertising which it did not then own in exchange for 1,000,000 Common Shares of the Corporation. These shares were assigned a value of \$147,345 based on the historical book values of Adwall Advertising.

### (c) Options and warrants:

- (i) At December 31, 1997 options were outstanding to purchase 1,640,000 Common Shares, exercisable at prices ranging from \$0.10 to \$0.425 per share and expiring at various times up to June 11, 2002; 750,000 of these options, at prices varying from \$0.10 to \$0.30 per share expired on January 31, 1998.
- (ii) At December 31, 1997 warrants were outstanding entitling the holders to acquire 8,712,550 Common Shares at prices ranging from \$0.32 to \$0.50 per share and expiring at various times up to June 18, 2001.

## 6. Related party transactions:

### (a) Consulting fees:

During the year ended December 31, 1997 the Corporation paid consulting fees of \$228,815 (1996 - \$58,558) to various officers, directors and former officers of the Corporation.

### (b) Commission paid:

During the year ended December 31, 1996 the Corporation paid a commission of \$23,629 to a shareholder of the Corporation; this is included in share issue costs.

## 7. Income taxes:

At December 31, 1997 the Corporation had non-capital losses of approximately \$5,000,000 available to reduce future taxable income, the benefit of which has not been recognized in these financial statements. These losses expire in varying amounts from 2001 to 2004.

During the year ended December 31, 1997 the Corporation received funds totaling approximately \$71,000 relating to a Scientific Research and Experimental Development tax credit claim with respect to the year ended June 30, 1995. This amount has been accounted for as a reduction in deferred development and marketing costs.

# ADWALL CAPITAL CORP.

Notes to Consolidated Financial Statements, Page 5

Years ended December 31, 1997 and 1996

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## 8. Commitments:

### (a) Leased premises:

The Corporation is committed to making payments for leased premises approximately as follows:

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1998	\$ 44,000
1999	33,000
2000	36,000
2001	40,000
2002	30,000

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### (b) Consulting agreement:

The Corporation is committed to making monthly payments totaling \$2,500 U.S. under a consulting agreement which terminates December 1, 1998.

## 9. Fair values:

It was not considered practical to estimate the fair value of the convertible debentures. The fair values of the Corporation's other monetary assets and liabilities approximated their carrying values as at December 31, 1997.

## ADWALL CAPITAL CORP.

### Consolidated Schedule of Deferred Development and Marketing Costs

Years ended December 31, 1997 and 1996

	1997	1996
Consulting fees, salaries and benefits	\$ 576,655	\$ 235,872
Wall equipment	571,337	112,903
Rent and utilities	5,422	9,013
Telephone and communications	5,374	3,209
General office	1,669	-
Software development	1,167	16,997
Direct marketing	-	500,000
	1,161,624	877,994
Less investment tax credits received (note 7)	70,727	-
	1,090,897	877,994
Balance, beginning of year	2,302,303	1,424,309
Balance, end of year	\$ 3,393,200	\$ 2,302,303



# AdWall Capital Corp.

## Corporate Information

### Head Office

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T2P 3N8

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Fax: (403) 237-8121  
Website: <http://www.wowmedia.com>

### Registered Office

Suite 1600, 407 – 2nd Street S.W.,  
Calgary, Alberta  
T2P 2Y3

### Directors

Alfred Bergida  
*Director*

Dr. Roger Johnson  
*Director*

Bruno D. Di Spirito  
*Director*

Ken Williams  
*Director*

### Officers

Alfred Bergida  
*Chief Executive Officer*

Kevin N. Hall  
*Chief Financial Officer*

Dr. Roger Johnson  
*Chief Technical Officer*

### Registrar & Transfer Agent

Montreal Trust  
530 - 8th Avenue S.W.,  
6th Floor  
Calgary, Alberta  
T2P 3S8

### Legal Counsel

Ogilvie and Company  
Calgary, Alberta

### Stock Exchange Listing

The Alberta Stock Exchange

### Auditors

KPMG  
Calgary, Alberta

### Trading Symbol

WOW

